

GLADWIN RURAL URBAN FIRE
PROTECTION DISTRICT
Gladwin County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended December 31, 2005

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Gladwin Rural Urban Fire Protection District	County Gladwin
Audit Date December 31, 2005	Opinion Date March 16, 2006	Date Accountant Report Submitted to State: April 3, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

March 16, 2006

To the Fire Board
Gladwin Rural Urban Fire Protection District
Gladwin County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Gladwin Rural Urban Fire Protection District, Gladwin County, Michigan as of and for the year ended December 31, 2005, which collectively comprise the Fire District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gladwin Rural Urban Fire Protection District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Gladwin Rural Urban Fire Protection District, Gladwin County, Michigan as of December 31, 2005, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2005

The Management's Discussion and Analysis report of the Gladwin Rural Urban Fire Protection District covers the Fire District's financial performance during the year ended December 31, 2005.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at December 31, 2005, totaled \$974,235.34 for governmental activities.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Gladwin Rural Urban Fire Protection District and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Gladwin Rural Urban Fire Protection District in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Gladwin Rural Urban Fire Protection District as a whole using accounting methods used by private companies. The statement of net assets includes all of the Fire District's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Fire District are reported as governmental activities. This includes the General Fund.

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2005

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Gladwin Rural Urban Fire Protection District's funds, focusing on significant (major) funds not the District as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Fire District Board also may create them. Funds are established to account for funding and spending or specific financial resources and to show proper expenditures of those resources.

The Gladwin Rural Urban Fire Protection District has only the General Fund.

FINANCIAL ANALYSIS OF THE FIRE DISTRICT AS A WHOLE

Our cash position in the governmental activities remains strong.

Our external debt was paid off during 2005.

FINANCIAL ANALYSIS OF THE FIRE DISTRICT'S FUNDS

The General Fund pays for most of the Fire District's governmental services.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Fire District's governmental activities invested \$0 in capital assets.

The Fire District paid \$29,541.69 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

State revenue sharing represents 0% of our income. Proposal A continues to impede our financial security for operations and funding of both capital improvements to the building and capital equipment needs. The Fire District was funded via a voted one (1) mill of State Equalized Valuation. Proposal A changed the classification to Taxable Valuation.

CONTACTING THE FIRE DISTRICT'S MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of the Gladwin Rural Urban Fire Protection District's finances and to demonstrate the Fire District's accountability for the revenues it receives. If you have any questions concerning this report please contact the Fire District's Treasurer at 1-989-426-7111.

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash on hand	50 00
Cash in bank	<u>216 779 18</u>
Total Current Assets	<u>216 829 18</u>
NON-CURRENT ASSETS:	
Capital Assets	1 742 500 00
Less: Accumulated Depreciation	<u>(984 850 00)</u>
Total Non-current Assets	<u>757 650 00</u>
TOTAL ASSETS	<u><u>974 479 18</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>243 84</u>
Total Current Liabilities	<u>243 84</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>243 84</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	757 650 00
Unrestricted	<u>216 585 34</u>
Total Net Assets	<u>974 235 34</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>974 479 18</u></u>

The accompanying notes are an integral part of these financial statements.

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended December 31, 2005

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Public safety	310 907 71	253 633 45	(57 274 26)
Interest on long-term debt	<u>1 742 20</u>	<u>-</u>	<u>(1 742 20)</u>
Total Governmental Activities	<u>312 649 91</u>	<u>253 633 45</u>	<u>(59 016 46)</u>
General revenues:			
Rent income			10 272 40
Interest			5 928 11
Miscellaneous			<u>37 317 57</u>
Total General Revenues			<u>53 518 08</u>
Change in net assets			(5 498 38)
Net assets, beginning of year			<u>979 733 72</u>
Net Assets, End of Year			<u>974 235 34</u>

The accompanying notes are an integral part of these financial statements.

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

BALANCE SHEET – GOVERNMENTAL FUND
December 31, 2005

	<u>Total (General)</u>
<u>Assets</u>	
Cash on hand	50 00
Cash in bank	<u>216 779 18</u>
Total Assets	<u><u>216 829 18</u></u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Accounts payable	<u>243 84</u>
Total liabilities	<u>243 84</u>
Fund equity:	
Fund balance:	
Unreserved:	
Undesignated	<u>216 585 34</u>
Total fund equity	<u>216 585 34</u>
Total Liabilities and Fund Equity	<u><u>216 829 18</u></u>

The accompanying notes are an integral part of these financial statements.

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
December 31, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	216 585 34
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	1 742 500 00
Accumulated depreciation	<u>(984 850 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>974 235 34</u>

The accompanying notes are an integral part of these financial statements.

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
Year ended December 31, 2005

	<u>Total (General)</u>
Revenues:	
City of Gladwin	48 684 12
Township of Buckeye	27 780 36
Township of Gladwin	21 543 00
Township of Grout	29 778 69
Township of Hay	38 535 50
Township of Sage	60 556 70
Township of Sherman	26 755 08
Rent income	10 272 40
Interest	5 928 11
Miscellaneous	<u>37 317 57</u>
Total revenues	<u>307 151 53</u>
Expenditures:	
Public safety:	
Fire protection:	
Services – officers	5 400 36
Services – firemen	57 462 27
Services – maintenance	27 079 00
Services – administration	8 345 47
Payroll taxes	7 517 84
Insurance	25 568 70
Equipment maintenance	3 458 35
Building maintenance	11 382 55
Vehicle maintenance	50 007 13
Vehicle gas and oil	7 459 86
Supplies	24 225 32
Dues and subscriptions	2 082 49
Utilities	12 942 78
Audit	2 100 00
Miscellaneous	2 775 59
Debt service	<u>31 283 89</u>
Total expenditures	<u>279 091 60</u>
Excess of revenues over expenditures	28 059 93
Fund balance, January 1	<u>188 525 41</u>
Fund Balance, December 31	<u><u>216 585 34</u></u>

The accompanying notes are an integral part of these financial statements.

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
Year ended December 31, 2005

NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUND 28 059 93

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(63 100 00)
Capital Outlay	-

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	<u>29 541 69</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>(5 498 38)</u></u>
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The accompanying notes are an integral part of these financial statements.

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Gladwin Rural Urban Fire Protection District, Gladwin County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Fire District contain all the Fire District funds that are controlled by or dependent on the Fire District's executive or legislative branches.

The reporting entity is the Gladwin Rural Urban Fire Protection District. The Fire District is governed by an elected Fire Board. As required by generally accepted accounting principles, these financial statements present the Fire District as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Fire District's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The Fire District reports only one fund as follows:

- The General Fund is used to record the operations of the Fire District which pertain to maintaining and operating the Fire District. Included are all transactions related to the approved current operating budget.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Fire District. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

The Fire District does not levy any property taxes.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Fire District as assets with an initial cost of more than \$3,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	50 years
Equipment	10-20 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Fire District provides no post-employment benefits to past employees.

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Fire Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Fire Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Fire Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Fire Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Fire District to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Fire Board has designated two banks for the deposit of Fire District funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 3 – Deposits and Investments (continued)

The Fire District's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>216 779 18</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	138 747 78
Uninsured and Uncollateralized	<u>78 197 60</u>
Total Deposits	<u>216 945 38</u>

The Fire District did not have any investments as of December 31, 2005.

Note 4 – Capital Assets

Capital asset activity of the Fire District's Governmental activities for the current year was as follows:

	<u>Balance 1/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/05</u>
<u>Governmental Activities:</u>				
Land	25 000 00	-	-	25 000 00
Buildings	500 000 00	-	-	500 000 00
Equipment	<u>1 217 500 00</u>	<u>-</u>	<u>-</u>	<u>1 217 500 00</u>
Total	1 742 500 00	-	-	1 742 500 00
Accumulated Depreciation	<u>(921 750 00)</u>	<u>(63 100 00)</u>	<u>-</u>	<u>(984 850 00)</u>
Net Capital Assets	<u>820 750 00</u>	<u>(63 100 00)</u>	<u>-</u>	<u>757 650 00</u>

Note 5 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 1/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/05</u>
Contract payable – fire truck	<u>29 541 69</u>	<u>-</u>	<u>29 541 69</u>	<u>-</u>
Total	<u>29 541 69</u>	<u>-</u>	<u>29 541 69</u>	<u>-</u>

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 6 – Contract Payable – Fire Truck

On April 28, 2000, the Fire District obtained a contract payable in the amount of \$132,147.61 which was used toward the purchase of a fire truck. The contract included interest at the rate of 5.8974% per annum and was due in five annual installments beginning May 17, 2001, through May 17, 2005. The principal balance of the contract was paid in full during the year ended December 31, 2005.

Note 7 – Deferred Compensation Plan

The Fire District does not have a deferred compensation plan.

Note 8 – Risk Management

The Fire District is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Fire District has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 – Pension Plan

The Fire District does not have a pension plan.

GLADWIN RURAL URBAN FIRE PROTECTION DISTRICT
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
City of Gladwin	46 625 36	46 625 36	48 684 12	2 058 76
Township of Buckeye	27 798 15	27 798 15	27 780 36	(17 79)
Township of Gladwin	21 543 00	21 543 00	21 543 00	-
Township of Grout	29 773 80	29 773 80	29 778 69	4 89
Township of Hay	38 815 52	38 815 52	38 535 50	(280 02)
Township of Sage	60 556 70	60 556 70	60 556 70	-
Township of Sherman	26 797 47	26 797 47	26 755 08	(42 39)
Rent income	10 220 00	10 220 00	10 272 40	52 40
Interest	5 000 00	5 000 00	5 928 11	928 11
Miscellaneous	-	-	37 317 57	37 317 57
Total revenues	<u>267 130 00</u>	<u>267 130 00</u>	<u>307 151 53</u>	<u>40 021 53</u>
Expenditures:				
Public safety:				
Fire protection:				
Services – officers	7 670 00	5 472 00	5 400 36	(71 64)
Services – firemen	38 000 00	57 469 00	57 462 27	(6 73)
Services – maintenance	25 180 00	27 080 00	27 079 00	(1 00)
Services – administration	9 370 00	9 390 00	8 345 47	(1 044 53)
Payroll taxes	5 500 00	8 300 00	7 517 84	(782 16)
Insurance	24 930 00	27 007 00	25 568 70	(1 438 30)
Equipment maintenance	3 000 00	3 500 00	3 458 35	(41 65)
Building maintenance	8 000 00	8 000 00	11 382 55	3 382 55
Vehicle maintenance	10 000 00	55 100 00	50 007 13	(5 092 87)
Vehicle gas and oil	4 950 00	8 920 00	7 459 86	(1 460 14)
Supplies	6 000 00	9 840 00	24 225 32	14 385 32
Dues and subscriptions	2 000 00	2 083 00	2 082 49	(51)
Utilities	15 400 00	15 400 00	12 942 78	(2 457 22)
Audit	1 500 00	2 100 00	2 100 00	-
Miscellaneous	8 200 00	8 228 00	2 775 59	(5 452 41)
Contingency	44 858 00	13 677 00	-	(13 677 00)
Capital outlay	101 287 00	54 279 00	-	(54 279 00)
Debt service	<u>31 285 00</u>	<u>31 285 00</u>	<u>31 283 89</u>	<u>(1 11)</u>
Total expenditures	<u>347 130 00</u>	<u>347 130 00</u>	<u>279 091 60</u>	<u>(68 038 40)</u>
Excess (deficiency) of revenues over expenditures	(80 000 00)	(80 000 00)	28 059 93	108 059 93
Fund balance, January 1	<u>80 000 00</u>	<u>80 000 00</u>	<u>188 525 41</u>	<u>108 525 41</u>
Fund Balance, December 31	<u>-</u>	<u>-</u>	<u>216 585 34</u>	<u>216 585 34</u>

CAMPBELL, KUSTERER & CO., P.C.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

March 16, 2006

To the Fire Board
Gladwin Rural Urban Fire Protection District
Gladwin County, Michigan

We have audited the financial statements of the Gladwin Rural Urban Fire Protection District for the year ended December 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Gladwin Rural Urban Fire Protection District in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Fire Board
Gladwin Rural Urban Fire Protection District
Gladwin County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Fire District's financial statements and this communication of these matters does not affect our report on the Fire District's financial statements, dated December 31, 2005.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants